PROVINCE OF SASKATCHEWAN

2012

ANNUAL REPORT

SASKATCHEWAN GOVERNMENT INSURANCE SERVICE RECOGNITION PLAN

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Letters of Transmittal

Her Honour, The Honourable Vaughn Solomon Schofield
Lieutenant Governor of the Province of Saskatchewan

May it Please Your Honour:

I have the honour to transmit herewith the Annual Report of the Saskatchewan Government Insurance Service Recognition Plan for the year ending December 31, 2012.

Ken Krawetz
Minister of Finance

The Honourable Ken Krawetz
Minister of Finance

Sir:

On behalf of the Public Employees Benefits Agency, I have the honour to transmit herewith the Annual Report of the Saskatchewan Government Insurance Service Recognition Plan for the year ending December 31, 2012.

Brian Smith
Assistant Deputy Minister
Public Employees Benefits Agency

Saskatchewan Government Insurance Service Recognition Plan

Introduction

Saskatchewan Government Insurance (SGI) established the SGI Service Recognition Plan (the Plan) effective January 1, 1999 for the payment of retirement benefits to certain employees.

The Plan is not registered under the *Income Tax Act* (Canada). SGI has not established a trust nor does it hold property for the specific purpose of providing benefits to participants of the Plan. Benefits are funded out of SGI's current operations.

SGI was the administrator of the Plan from January 1, 1999 to January 13, 2004. On January 13, 2004, an Order in Council designated the Public Employees Benefits Agency (PEBA) as the administrator of the Plan pursuant to *The Financial Administration Act, 1993.*

Enrolment

SGI out-of-scope employees receive benefits from the Plan, provided they meet eligibility requirements. At December 31, 2012, there were 260 (2011 – 266) members in the Plan and 7 (2011 – 12) terminated participants who received benefits from the Plan during the year.

Benefits

Participants in the Plan are eligible for benefits upon termination of employment, without cause, provided they meet eligibility requirement of the earlier of the employee attaining age 50 or the sum of the employee's age and years of service is at least 75. Employees meeting either criterion receive a lump sum payment of five days salary, based on the termination salary rate, for each year of service with SGI.

A participant in the Plan who dies while a member of the Plan is deemed to satisfy the eligibility requirements. The member's beneficiary or estate will receive the same benefit as at termination or retirement based on the formula identified above.

The benefit received is considered a retiring allowance under the *Income Tax Act* (Canada) and is taxable in the hands of the member. A member who has years of service earned prior to 1996 is eligible for a portion of this payment to be a tax-free direct transfer to their RRSP.

Management's Report

To the Members of the Legislative Assembly of Saskatchewan

As administrators of the Saskatchewan Government Insurance Service Recognition Plan, we are responsible for the preparation and presentation of the following financial statements in accordance with Canadian generally accepted accounting principles applied on a basis consistent with that of the preceding year.

The significant accounting policies adopted in the preparation of the financial statements are fully and fairly disclosed in the financial statements.

We believe the Saskatchewan Government Insurance Service Recognition Plan has a system of internal control adequate to provide reasonable assurance that the accounts are faithfully and properly kept to permit the preparation of accurate financial statements in accordance with Canadian generally accepted accounting principles.

The accrued benefits obligation is determined by an actuarial valuation. Actuarial valuation reports require management's best estimate assumptions about future events.

I enclose the financial statements of the Saskatchewan Government Insurance Service Recognition Plan for the year ended December 31, 2012 and the Provincial Auditor's report on these financial statements.

Brian Smith
Assistant Deputy Minister
Public Employees Benefits Agency

Regina, Saskatchewan
March 14, 2013

Actuaries' Opinion

Aon Hewitt was retained by Saskatchewan Government Insurance (SGI) to perform an actuarial valuation of the SGI Service Recognition Plan as at December 31, 2012. This valuation has been prepared for the purpose of determining the actuarial information to be included in the Plan's financial statements as of December 31, 2012.

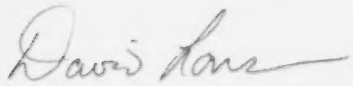
In my opinion, for the purpose of this actuarial valuation:

- the data on which this valuation is based is sufficient and reliable;
- the actuarial cost methods employed are appropriate; and
- the valuation conforms with the requirements of The International Accounting Standard 19 – Employee Benefits (IAS 19).

The assumptions have been adopted as management's best estimates for accounting purposes and consequently I have not rendered an opinion on them; however, in my opinion, the assumptions are, in aggregate not unreasonable, when considering the circumstances of the plan and the purpose of the valuation.

Emerging experience differing from the assumptions will result in gains or losses, which will be revealed in subsequent valuations.

This actuarial valuation has been prepared and this actuarial opinion has been given in accordance with accepted actuarial practice.



David R. Larsen
Fellow, Society of Actuaries
Fellow, Canadian Institute of Actuaries

January 18, 2013

Saskatchewan Government Insurance Service Recognition Plan

Financial Statements

Year Ended December 31, 2012

PROVINCIAL AUDITOR
of Saskatchewan

Independent Auditor's Report

To: The Members of the Legislative Assembly of Saskatchewan

I have audited the accompanying financial statements of the Saskatchewan Government Insurance Service Recognition Plan, which comprise the statement of financial position as at December 31, 2012, and the statement of changes in net assets available for benefits and statement of changes in accrued benefits obligations for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for pension plans for Treasury Board's approval, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Saskatchewan Government Insurance Service Recognition Plan as at December 31, 2012, and the changes in net assets available for benefits and changes in accrued benefits obligations for the years then ended in accordance with Canadian accounting standards for pension plans.

Bonnie Lysyk

Regina, Saskatchewan
March 14, 2013

Bonnie Lysyk, MBA, CA
Provincial Auditor

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Saskatchewan Government Insurance
Service Recognition Plan

Statement 1

Statement of Financial Position

As at December 31

	2012	2011
	(thousands of Canadian $)	
ASSETS		
SGI contributions receivable (Note 3)	$ 8,199	$ 7,814
NET ASSETS AVAILABLE FOR BENEFIT	8,199	7,814
ACCRUED BENEFITS OBLIGATION (Note 3)	8,199	7,814
SURPLUS	$ -	$ -

(See accompanying notes to the financial statements)

Saskatchewan Government Insurance **Statement 2**
Service Recognition Plan

Statement of changes in Net Assets Available for Benefits

Year Ended December 31

	2012	2011
	(thousands of Canadian $)	
INCREASE IN ASSETS		
SGI contributions (Note 3)	$ 967	$ 1,075
DECREASE IN ASSETS		
Benefit payments	(582)	(928)
Increase in net assets	385	147
NET ASSET AVAILABLE FOR BENEFITS beginning of the year	7,814	7,667
NET ASSETS AVAILABLE FOR BENEFITS, end of the year	$ 8,199	$ 7,814

(See accompanying notes to the financial statements)

Saskatchewan Government Insurance **Statement 3**
Service Recognition Plan

Statement of Changes in Accrued Benefits Obligation

Year Ended December 31

	2012	2011
	(thousands of Canadian $)	
Accrued benefits obligation, beginning of the year	$ 7,814	$ 7,667
INCREASE IN ACCRUED BENEFITS OBLIGATION		
Interest on accrued obligation	286	323
Benefits accrued	218	320
Change in obligation resulting from new members	152	232
Change in assumptions	50	224
Net experience loss (gain)	261	(24)
	967	1,075
DECREASE IN ACCRUED BENEFITS OBLIGATION		
Eligible employee terminations	582	928
Increase in accrued benefit obligations	385	147
Accrued benefits obligation, end of year	$ 8,199	$ 7,814

(See accompanying notes to the financial statements)

Saskatchewan Government Insurance
Service Recognition Plan

Notes to the Financial Statements

December 31, 2012

1. Description of the Plan

Saskatchewan Government Insurance (SGI) established the SGI Service Recognition Plan (the Plan) on January 1, 1999 for the purpose of providing certain retirement benefits to SGI employees (the Participants).

The Plan is not registered under the *Income Tax Act* (Canada). SGI has not established a trust nor does it hold property for the specific purpose of providing benefits to the participants. Benefits are funded out of current operations of SGI.

SGI managed the Plan from January 1, 1999 to January 13, 2004. On January 13, 2004, an Order in Council designated the Plan as a benefit program to be operated, administered and managed by the Public Employees Benefits Agency (PEBA). An agreement has been established between PEBA and SGI, which specifies the administrative services that SGI will provide.

The following description is a summary only. For more complete information, reference should be made to the Plan document.

Eligibility

Under the Plan, SGI out-of-scope employees are eligible for benefits upon termination of employment with SGI. Employees who are terminated for cause are not eligible. Employees must reach their benefit eligibility date prior to termination in order to receive benefits from the Plan. The benefit eligibility date is the earlier of:

a) age plus service equal to or greater than 75; or
b) age 50

At December 31, 2012, there were 260 (2011 – 266) participants in the Plan. There were seven (2011 – 12) terminated participants who received benefits from the Plan during the year, and 10 union employees that transferred into the Plan.

Benefits

Employees meeting the eligibility criteria receive a lump sum payment of five days salary (salary rate being the salary paid at the time of cessation of active work) for each year of continuous service less ineligible leave time and ineligible partial service time.

A participant in the Plan who dies while a member of the Plan is deemed to satisfy the eligibility requirements. The member's beneficiary or estate will receive the same benefit payment based on the calculation identified above.

Plan Participation

Effective December 31, 2011, members in the Plan were given the option to either remain in the Plan and continue accruing benefits, or have their years of service and accrued benefit locked-in at December 31, 2011 and enter the new Management Employee Service Allowance (MESA) program effective January 1, 2012. The MESA provides for an annual payout to the employee, with no accrual of future benefits. The Plan is only open to existing union employees who promote into management, having their years of service locked in at the time of promotion, or to new Executive employees of SGI.

2. Basis of Preparation and Significant Accounting Policies

The financial statements have been prepared in accordance with Canadian accounting standards for pension plans as outlined in the CICA Handbook, section 4600, Pension Plans. For matters not addressed in Section 4600, International Financial Reporting Standards (IFRS) have been followed.

The following accounting policies are considered significant:

(a) Basis of measurement

The financial statements have been prepared on the historical cost basis.

(b) Financial instruments

All financial instruments are measured at fair value on initial recognition and recorded on the statement of financial position. Financial instruments classified as loans and receivables are subsequently measured at amortized cost. The SGI contribution receivable, a financial instrument, has been classified in the loans and receivable category. As described in Note 3, the fair value of this receivable is its carrying value.

(c) Accrued benefits obligation

The accrued benefits obligation and cost of severance benefits are determined using the projected benefit method pro rated on service.

(d) Measurement Uncertainty

The preparation of financial statements in accordance with Canadian accounting standards for pension plans requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates and changes in estimates are recorded in the accounting period in which they are determined. The most significant estimation process is related to the actuarial determination of the accrued pension benefits.

(e) Adoption of new accounting standards

A number of new standards, and amendments to standards and interpretations, are not yet effective for the year ended December 31, 2012, and have not been applied in preparing these financial statements. None of these are expected to have a significant effect on the financial statements of the Plan.

3. Accrued Benefits Obligation

The accrued benefits obligation of the Plan is receivable from SGI and will be funded by SGI as eligible employees terminate employment. The present value of the accrued benefits obligation was determined using the projected benefits method prorated on service and the best estimate assumptions of SGI's management. Aon Hewitt performed the actuarial valuation for accounting purposes as at December 31, 2012. The effective date of the next required valuation is December 31, 2013.

The accrued benefits obligation is based on many assumptions about future events. Actual experience may vary significantly from the long-term assumptions used. The actuarial valuation is based on the following significant assumptions at December 31:

	2012	2011
Discount Rate		
Beginning of year	3.70%	4.30%
End of year	3.20%	3.70%
Inflation Rate	2.50%	2.50%
General salary increase	3.50%	3.50%
Expected average remaining service life (EARSL)	9 years	9 years

The following illustrates the effect of changes in these assumptions on the accrued benefits obligation:

Assumption	Change Made	Change in Obligation at December 31, 2012 (000's)	Percentage change in Obligation
Total Discount Rate	Plus 1%	(429)	(5.23%)
	Minus 1%	487	5.94%
Inflation Rate	Plus 1%	(1)	(0.01%)
	Minus 1%	1	0.01%
General Salary Increase	Plus 1%	481	5.87%
	Minus 1%	(432)	(5.27%)

In assessing the change arising from a change in the inflation rate assumption, both the salary increase rate and the discount rate are changed, as they include inflation as a component.

Net experience gains (losses) result from differences between actual and expected employee terminations, retirements, salary increases, deaths and the addition of new plan members. These are recognized as an increase or a decrease in accrued benefit obligation.

The actuarial present value of the accrued benefits obligation is long term in nature and there is no market for settling this obligation. Therefore, determination of the fair value is not practicable.

4. Financial Risk Management

The nature of the Plan's operations result in a statement of financial position that consists entirely of financial assets and liabilities. As benefits are funded out of current operations of SGI, the Plan's financial risks relate primarily to credit risk. The maximum credit risk to which it is exposed at December 31, 2012 is limited to the carrying value of its contributions receivable from SGI.

5. Related Party Transactions

Included in these financial statements are transactions with SGI, which is related to the Plan by virtue of common control by the Government of Saskatchewan.

The Plan has received the use of office space and administrative services from SGI at no charge. Additionally, PEBA provides administrative services to the Plan for a yearly administration fee.

6. Comparative Financial Information

For comparative purposes, certain 2011 balances have been reclassified to conform to the 2012 financial statement presentation.